



CITY OF HAYWARD AGENDA REPORT

AGENDA DATE October 3, 1998

AGENDA ITEM 3

WORK SESSION ITEM _____

TO : Redevelopment Agency Board

FROM : Director of Community and Economic Development

SUBJECT: **Loan for Seismic Retrofit and Façade Improvements for the Green Shutter Hotel**

Recommendation:

It is recommended that the Redevelopment Agency Board adopt the attached resolution authorizing a loan from the Low and Moderate Income Housing Fund in the amount of \$550,000 to Crown Management, Inc. and American Hotels, Inc for the seismic retrofit and facade upgrade of the Green Shutter Hotel.

Background:

The Green Shutter Hotel at the corner of B and Main Streets was built in 1920. Initially constructed as a two story concrete block commercial building in the Federal Revival style fronting on B Street, in 1926, it was greatly expanded and converted to hotel use with an extensive two-story brick addition extending nearly 200 feet south along Main Street. Long a landmark in downtown Hayward, the Green Shutter is home to a restaurant, shops and a single room occupancy residential hotel. Due to its age and type of construction, the Green Shutter comes under the City's Earthquake Hazard Reduction for Unreinforced Masonry Buildings Ordinance.

In 1993, Council established a seismic retrofit loan program for unreinforced masonry buildings in downtown Hayward. The program was operated by a consortium of local lenders, led by Bank of the West. The program focused on providing retrofit loan funds for commercial properties which met bank underwriting guidelines, since very few lenders were making retrofit loans at that time. Program lenders were aware of the need to seismically retrofit the Green Shutter and the fact that it did not fit program guidelines because it housed both retail and residential uses. Therefore, the lender agreement included a clause enabling a single bank or combination of banks to make retrofit loans which didn't fit within the program guidelines.

Resolving Legal and Underwriting Issues

There were a number of legal and underwriting issues that needed to be resolved before a loan could be made for the Green Shutter Hotel

- ❖ The first issue was ownership. The Green Shutter was one of the assets in a trust, the beneficiary of which was the San Francisco Foundation. The death of the trust's owner precipitated a legal battle which tied up the building for several years
- ❖ The second issue was that the bank required the owner to subordinate the ground lease as a condition of making the loan. The hotel and commercial properties are actually on a very long-term ground lease. American Hotels purchased the master lease from the previous lease holders in 1996. American Hotels/Crown Management spent a number of months working with representatives of the San Francisco Foundation to obtain permission to subordinate the Foundation's interest to Bank of the West during the outstanding loan term.
- ❖ The third issue was that banks are not used to making seismic retrofit loans for buildings with substantial retail and substantial residential uses. Lenders usually have separate departments with different underwriting guidelines for retail commercial and residential hotels.

It has taken five years to obtain financing for this project. Due to changes in the banking industry, most of the consortium members are no longer independent institutions. Therefore, Bank of the West will be the sole private consortium member making this loan. The Green Shutter Hotel is the last building to be funded through the seismic retrofit loan program.

Proposed Loan Structure

The total construction cost for the retrofit, handicap access and **façade** improvements is estimated at \$1 million. Approximately, \$850,000 is for the retrofit and handicap improvements and \$150,000 is to restore the building **façade**. The Bank of the West is underwriting the loan at \$450,000, based upon their debt service requirements. This leaves a gap of \$550,000 which American Hotels/Crown Management is requesting to borrow from the Redevelopment Agency's Low and Moderate Income Housing Fund (Low/Mod Fund). In addition, Crown Management/American Hotels has invested \$100,000 in construction drawings, plan check and property repairs to-date.

Staff have reviewed and verified the financial data and construction-related information prepared for Bank of the West, by Crown Management, Inc/American Hotels, for this project. Financial statements show a positive cash flow to the company over the three years provided. Crown Management/American Hotels operates 25 hotels throughout Northern California and has approximately 250 employees; Dun and Bradstreet's

composite credit analysis indicates overall good credit. Bank of the West has underwritten the loan conservatively with a significant allowance for commercial vacancy and tenant improvements. Therefore, the actual cash flow available, without an increase in commercial tenancy, appears to be more than sufficient to repay the Redevelopment Agency's loan.

The Bank of the West's funds would be used for the seismic retrofit of the commercial properties and handicap access requirements; the Low/Mod Fund monies would be used for the seismic retrofit of the residential hotel and repair of the facade. Although the City has a facade improvement program utilizing Community Development Block Grant (CDBG) funds, for which the Green Shutter Hotel is eligible, staff is proposing that Low/Mod Funds be used for this project for two reasons:

- ❖ The use of CDBG funds would add a complex, time-consuming layer of regulations on this project; and
- ❖ The funds believed to repair the Green Shutter facade would use almost half of the funds allocated for the CDBG-funded facade program, thereby eliminating the opportunity for three to five other properties to participate in that program.

Staff is recommending that the guidelines for the facade program be used for the portion of the loan devoted to facade repairs, including the requirement the borrower must maintain the property according to the maintenance schedule in the loan agreement.

The proposed loans will be structured as follows:

❖ ***Bank of the West***

The Bank will make a short-term construction loan of \$450,000 at prime interest rate plus 2 percentage points for one year. The construction loan will be recorded on the property. After construction is completed, the construction loan will become a mortgage of \$450,000 with a lower interest rate [set at the five (5) year Treasury Note yield plus 3% for five years] and an option to reset the rate and extend the loan for an additional five years. An annual debt service payment of approximately \$47,000 will be required.

❖ ***Redevelopment Agency***


The Redevelopment Agency will make a construction loan of \$550,000 at the five (5) year Treasury rate plus 2 percentage points for one year. The construction loan will be recorded on the property. After construction is completed, this loan will be converted into a second mortgage of \$400,000 at the five (5) year Treasury Note rate plus 2% and a third mortgage of \$150,000 which will be a fully deferred facade improvement loan that will become due and payable if the property is not maintained according to standard. Payments on the

second mortgage may be partially deferred and will not become fully amortizing until the first mortgage is paid off or the property is generating sufficient cash flow to meet the debt service reserve requirements of Bank of the West. The project, as currently underwritten by Bank of the West, allows the Redevelopment Agency to receive a minimum annual payment of only \$16,000 on its second mortgage. This will partially pay annual interest costs; however, unpaid interest will continue to accumulate. As described above, staff's financial analysis indicates that sufficient cash flow will exist to pay more than the minimum annual payment. Since interest will accrue on the unpaid interest, there is a powerful incentive for American Hotels/Crown Management to repay the Agency as much as cash flow permits.

Summary

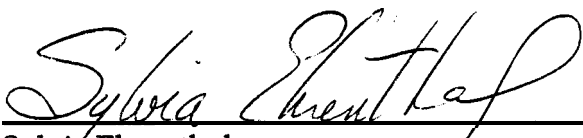
The Green Shutter Hotel is a landmark building in the heart of Hayward's downtown. An unreinforced masonry building, it needs seismic retrofitting in order to protect those who live and work there and anyone who might be nearby when a seismic event occurs. Because it is an older structure with a mix of commercial and residential uses and is on a ground lease, it has been very difficult to find lenders willing to finance the needed construction. The Bank of the West has indicated a willingness to fund part of the construction and the master lessee has funded some needed repairs but approximately \$550,000 is needed to complete the retrofit, handicap access requirements, and complete the façade improvements. Staff is recommending that the Redevelopment Agency Board approve this loan from the Low and Moderate Income Housing Fund because of the long term benefits to downtown Hayward from restoring this important structure.

Prepared by:



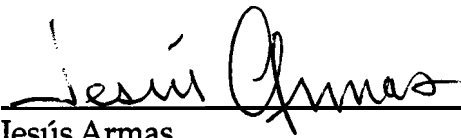
Ann R. Bauman
Community Planning and
Economic Development Administrator

Recommended by:



Sylvia Ehrental
Director of Community and
Economic Development

Approved by:



Jesús Armas
City Manager

Attachment: Resolution

10-15-98 jm

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA-_____

Introduced by Commissioner _____

RESOLUTION AUTHORIZING A LOAN OF \$550,000 FROM
THE LOW AND MODERATE INCOME HOUSING FUND FOR
SEISMIC RETROFIT AND OTHER IMPROVEMENTS TO THE
GREEN SHUTTER HOTEL

WHEREAS, Crown Management, Inc., master lessee, and its management agent, American Hotels, Inc., are the operators of the Green Shutter Hotel ("Owners"), an unreinforced masonry building located in downtown Hayward at the corner of "B" and Main Streets, which contains housing used by persons of low and moderate income; and

WHEREAS, the Owners intend to perform a seismic retrofit, together with ancillary facade repairs, and to install handicap access improvements in the Green Shutter Hotel, and the total cost of such repairs and improvements ("the Construction") have been estimated to be \$1,000,000 (One Million dollars); and

WHEREAS, the Owners have asked the City of Hayward and the Redevelopment Agency of the City of Hayward for a loan in the amount of \$550,000 (Five Hundred Fifty Thousand dollars) to finance that part of the proposed Construction for which financing from private lenders is not available; and

WHEREAS, the Owners' loan request was duly considered by the City Council, in its capacity as the Redevelopment Agency of the City of Hayward, at its October 20, 1998, meeting, pursuant to the report and recommendations presented by the Agency's staff.

NOW THEREFORE BE IT RESOLVED by the Redevelopment Agency of the City of Hayward that it hereby determines that the proposed Construction is necessary to ameliorate building conditions at the Green Shutter Hotel which are potentially hazardous to the health and safety of low or moderate income residents in the event of a tremor and will also benefit low or moderate income residents by providing handicap access, therefore the Property Owners' loan request is for purposes consistent with the policies for loans from the Low-and-Moderate Income Housing Fund.

BE IT ALSO RESOLVED that the Redevelopment Agency of the City of Hayward authorizes a loan not to exceed \$550,000 (Five Hundred Fifty Thousand dollars) from the Low **and** Moderate Income Housing Fund, Fund 452, to the Owners of the Green Shutter Hotel, to be used to defray the costs of the Construction.

BE ~~IT~~ FURTHER RESOLVED that said loan shall be subject to the following conditions:

- (1) The Owners shall execute and convey to the Agency a promissory note in the amount of \$550,000 in a form acceptable to the Agency's **General** Counsel, which provides the following:
 - (A) The loan will accrue interest at a rate equal to the rate of interest earned by five year treasury notes plus two percent.
 - (B) The portion of the loan proceeds, to be used for seismic retrofit and handicap access improvements, which are currently estimated to be approximately \$400,000 (**Four** Hundred Thousand dollars), and interest thereon shall become due and payable no later than five years after the Construction is completed, **unless** the Executive Director authorizes an extension of the loan for **an** additional period of time, which **shall** not exceed five years.
 - (C) Payment of the remainder of the loan proceeds, to be used for facade repairs and improvements, which are **currently** estimated to be approximately \$150,000 (One Hundred Fifty Thousand dollar), and interest thereon shall **also** become due on terms and conditions acceptable to the Agency's Executive Director.
- (2) The Owners shall provide security for repayment of the loan by executing and conveying to the Redevelopment Agency a second mortgage/deed of trust securing that portion of the loan which is to be used for the seismic retrofit and handicap access improvements, currently estimated at **\$400,000** (Four Hundred Thousand dollars), and a third mortgage/deed of trust for that portion of the loan which is to be used for the facade repairs and improvements, currently estimated at \$150,000 (One Hundred Fifty Thousand dollars), in a form acceptable to the Agency's General Counsel.
- (3) The loan documents shall also provide that the loan or portion thereof, together with accrued interest, shall become immediately due and payable to the Agency upon written demand if the Agency's Executive Director determines that the Owners are not complying with their responsibility to maintain the Green Shutter Hotel structure in accordance with a Maintenance Agreement acceptable to the Agency's Executive Director, which the Owners shall execute as an additional condition of the Agency's loan.
- (4) If authorized by the Agency's Executive Director, the Owners' obligation to repay the portion of the **loan used** for facade improvements, together with accrued interest, may be suspended during the time period that the Green Shutter Hotel is fully maintained in accordance with the terms of a Maintenance Agreement which

the Owners shall execute as a further condition of the loan, which are acceptable to the Executive Director and approved as to form by the Agency's General Counsel.

BE ~~IT~~ FURTHER RESOLVED that the Agency's Executive Director is authorized to negotiate, finalize and execute the loan documents contemplated by this Resolution and to ~~take~~ other actions necessary to implement this Resolution.

HAYWARD, CALIFORNIA, _____ 1998

ADOPTED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSENT:

ATTEST: _____
Secretary of the Redevelopment Agency
of the City of Hayward

APPROVED AS TO FORM:

General Counsel